

# Environmental Financial Advisory Board





*The Environmental Financial Advisory Board with EPA Administrator Steven L. Johnson  
at the annual EFAB meeting, March 2006.*

## The Environmental Financial Advisory Board

Not only is the nation facing many environmental challenges, such as water pollution and suburban sprawl, but it also faces the problem of paying for environmental facilities and services to solve these challenges, as well as creating incentives that promote environmental stewardship. Limited budgets and changes in federal tax laws have constrained traditional sources of capital. At the same time, there are expanding needs and expectations for environmental protection and increasing demands in all municipal service areas. All of these factors make it increasingly difficult for state and local governments to find the resources to meet their needs.

### PURPOSE AND GOALS

The Environmental Financial Advisory Board (EFAB) was established to advise the U.S. Environmental Protection Agency (EPA) on ways to address the expanding funding gap. Initially chartered in 1989, EFAB provides “how to pay” advice and recommendations to EPA on environmental finance issues, options, proposals, and trends. The board is an independent advisory committee created under the authority of the Federal Advisory Committee Act (FACA), which provides a role for the public to participate actively in the federal government’s decision-making process. FACA allows the government to draw on the expertise of committee members, providing federal officials information and advice on a broad range of issues affecting federal policies and programs.

EFAB’s mandate is as follows:

- Lower costs by 1) proposing ways to remove financial and programmatic barriers that raise the price of environmental protection and 2) discouraging polluting behavior.
- Increase public and private investment in environmental facilities and services by removing con-



*EPA Administrator Steven Johnson addressing the EFAB at the March 2006 meeting in Washington, D.C.*

straints on private involvement imposed by current regulations.

- Build state and local financial capacity to carry out their respective environmental programs under current federal tax laws.

EFAB’s work is organized in support of EPA’s five strategic goals:

- **Goal 1: Clean Air and Global Climate Change:** Protect and improve the air so it is healthy to breathe and risks to human health and the environment are reduced. Reduce greenhouse gas intensity by enhancing partnerships with businesses and other sectors.
- **Goal 2: Clean and Safe Water:** Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic systems to protect human health, support economic and recreational activities, and provide healthy habitat for fish, plants, and wildlife.
- **Goal 3: Land Preservation and Restoration:** Preserve and restore the land by using innovative waste management practices and cleaning up contaminated properties to reduce risks posed by releases of harmful substances.
- **Goal 4: Healthy Communities and Ecosystems:** Protect, sustain, or restore the health of people, communities, and ecosystems using integrated and comprehensive approaches and partnerships.

# ENVIRONMENTAL FINANCIAL ADVISORY BOARD

- **Goal 5: Compliance and Environmental**

**Stewardship:** Improve environmental performance through compliance with environmental requirements, preventing pollution, and promoting environmental stewardship. Protect human health and the environment by encouraging innovation and providing incentives for governments, businesses, and the public that promote environmental stewardship.

## EFAB OPERATIONS

The board is currently comprised of 28 members who serve as representatives of non-federal interests. They are appointed by the Agency's deputy adminis-

trator and represent federal, state, and local government; the banking, finance, and legal communities; business and industry; and academia and nonprofit environmental organizations.

The full board meets at least twice a year in Washington, D.C., for its winter session and in San Francisco, California, for its summer session. In addition, the board hosts workshops and roundtables periodically to gather information for its reports and advisories. All meetings and workshops are open to the public and announced in the Federal Register as required by FACA.

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EFAB members are as follows:

**Stan Meiburg**

Designated Federal Official  
Deputy Regional Administrator  
*U.S. Environmental Protection Agency, Region 4*

**Terry Agriss**

Vice President of Energy Management  
*Consolidated Edison*

**A. James Barnes**

Professor of Public and Environmental Affairs  
*Indiana University*

**Julie Belaga**

Co-Chair  
*Connecticut League of Conservation Voters*

**John Boland**

Professor Emeritus  
*Johns Hopkins University*

**George Butcher**

Managing Director of Municipal Finance  
*Goldman Sachs & Company*

**Donald Correll**

President and CEO  
*American Water*

**Michael Curley**

Executive Director  
*The International Center for Environmental Finance*

**Rachel Deming**

Associate General Counsel  
*Ciba Specialty Chemicals Corporation*

**Honorable Pete Dominici**

*United States Senate*

**Honorable Kelly Downard**

Chairman  
*Louisville Metro City Council*

**Mary Francoeur**

Director  
*Financial Guaranty Insurance Co.*

**Honorable Vincent Girardy**

Mayor  
*Peapack and Gladstone, NJ*

**Steven Grossman**

Executive Director  
*Ohio Water Development Authority*

**Jennifer Hernandez**

Partner  
*Holland and Knight LLP*

# ENVIRONMENTAL FINANCIAL ADVISORY BOARD

**Keith Hinds**  
*Merrill Lynch*

**Stephen Mahfood**  
President  
*Mahfood Associates LLC*

**Langdon Marsh**  
Fellow National Policy Consensus Center  
*Portland State University*

**Gregory Mason**  
Assistant Executive Director  
*Georgia Environmental Facilities Authority*

**Cherie Rice**  
Vice President of Finance and Treasurer  
*Waste Management, Inc.*

**Andrew Sawyers**  
Program Administrator  
*Maryland Department of the Environment*

**James Smith**  
Retired  
*Environmental Finance Consultant*

**Greg Swartz**  
Vice President  
*Piper Jaffray & Company*

**Sonia Toledo**  
Managing Director  
*Merrill Lynch*

**Helen Sahi**  
Director of Environmental Services  
*Bank of America*

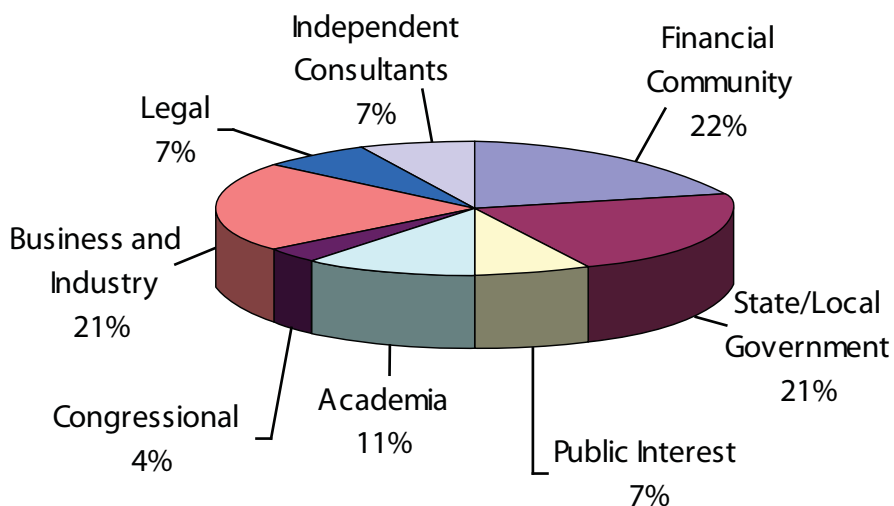
**Jim Tozzi**  
*Multinational Business Services, Inc.*

**Billy Turner**  
President  
*Columbus Water Works*

**Justin Wilson**  
*Waller Lansden*

**John Wise**  
Retired  
*Environmental Finance Consultant*

## EFAB Composition





## EFAB'S WORK PRODUCTS

The board often receives requests from EPA on specific environmental finance challenges. Through public meetings, working group sessions, and workshops, EFAB develops advisories, reports, and letters to the Agency that offer independent and expert views on environmental finance issues and opportunities.

During its annual summer meeting, the board updates its Strategic Action Agenda to reflect projects both completed and ongoing, and uses the meeting to bring forward new projects of great interest to the Agency. During 2005-2006, the board transmitted eight reports to the Agency and is working on another four projects for 2006-2007.

Although water financing has traditionally been the majority of EFAB's work, the board is excited to recently expand its focus to other media areas such as solid waste, air, and crosscutting management issues.

Set forth below is a list of recent work products of the board, including the title and summary of the project or report and the date issued, followed by the EFAB member serving as project chair, the primary Agency customer, the Web addresses of the full EFAB report, and, where available, EPA's response.

## COMPLETED PROJECTS/REPORTS 2005-2006

### *Useful Life Financing of Water Facilities (January 2005)*

EFAB is deeply interested in leveraging existing funding to help address the unmet environmental needs facing communities nationwide. This report advises how environmental goals and objectives might be more affordable by using debt management practices that reduce the current budgetary impact of funding capital expenditures. Specifically, the board examined how more closely aligning the period over which the costs of environmental facilities are amortized with their useful life can lower annual debt service costs. Attention was paid to the costs, benefits, and fairness of this approach over the entire useful life of environmental facilities.

**Project Chair:** George Butcher

**EPA Strategic Goal:** Clean and Safe Water

**Primary Customer:** Office of Water

**Cover letter:** <[www.epa.gov/efinpage/efab/usefullifeletter.pdf](http://www.epa.gov/efinpage/efab/usefullifeletter.pdf)>

**EFAB Report:** <[www.epa.gov/efinpage/efab/usefullifereport.pdf](http://www.epa.gov/efinpage/efab/usefullifereport.pdf)>

**EPA Response:** <[www.epa.gov/efinpage/efab/epa\\_ul\\_financing\\_response.pdf](http://www.epa.gov/efinpage/efab/epa_ul_financing_response.pdf)>

### *Watershed/Non-Point Source Financing (January 2005)*

Non-point sources of pollution are the dominant contributors to degraded water quality in most watersheds. Paying for projects to correct non-point source problems is difficult because of the complexity of the sources and the declining availability of grant funding. Working with EPA's Office of Wetlands, Oceans and Watersheds, EFAB identified options for financing needed projects using financing entities within the watershed itself.

**Project Chair:** Langdon Marsh

**EPA Strategic Goals:** Clean and Safe Water; Healthy Communities and Ecosystems

**Primary Customer:** Office of Water

**EFAB Report:** <[www.epa.gov/efinpage/efab/innowaterfinletter.pdf](http://www.epa.gov/efinpage/efab/innowaterfinletter.pdf)>

**EPA Response:** <[www.epa.gov/efinpage/efab/epa\\_nps\\_financing\\_response.pdf](http://www.epa.gov/efinpage/efab/epa_nps_financing_response.pdf)>

### *Application of Innovative Finance Techniques in the Transportation Infrastructure & Financial Innovation Act of 1998 to Environmental Finance Issues (March 2005)*

The board's charter directs it to provide advice on new and innovative financing approaches. In this regard, EFAB has identified a financing technique known as backloading in the Transportation Infrastructure and Financial Innovation Act of 1998 and recommended that it be adapted to financing brownfields cleanup and redevelopment and rural water/wastewater facilities. (In using backloading, the federal government would serve as a patient investor in a project with the

loan repayments it receives occurring later in the project timeframe and/or ramping up over time.)

**Project Chair:** Michael Curley

**EPA Strategic Goals:** Clean and Safe Water; Land Preservation and Restoration

**Primary Customers:** Office of Water; Office of Solid Waste and Emergency Response

**EFAB Report:** <[www.epa.gov/efinpage/efab/appinnofintech.pdf](http://www.epa.gov/efinpage/efab/appinnofintech.pdf)>

**EPA Office of Water Response:** <[www.epa.gov/efinpage/efab/ow\\_backloading\\_response.pdf](http://www.epa.gov/efinpage/efab/ow_backloading_response.pdf)>

**EPA Office of Solid Waste Response:** <[www.epa.gov/efinpage/efab/oswer\\_backloading\\_response.pdf](http://www.epa.gov/efinpage/efab/oswer_backloading_response.pdf)>

## *Combined Operations of the State Revolving Fund Programs (May 2005)*

In this report, the board examines whether there are advantages—financially, administratively, or otherwise—to allowing states the option to operate their Clean Water and Drinking Water Revolving Loan Funds as one. The board issued a report to EPA pointing out the advantages of combined operations of the two state revolving funds and recommending that the Agency examine this topic in depth.

**Project Chair:** Sonia Toledo

**EPA Strategic Goal:** Clean and Safe Water

**Primary Customer:** Office of Water

**Cover Letter:** <[www.epa.gov/efinpage/efab/srfcombopscoverltr.pdf](http://www.epa.gov/efinpage/efab/srfcombopscoverltr.pdf)>

**EFAB Report:** <[www.epa.gov/efinpage/efab/srfcombopsreport.pdf](http://www.epa.gov/efinpage/efab/srfcombopsreport.pdf)>

**EPA Response:** <[www.epa.gov/efinpage/efab/epa\\_comb\\_ops\\_srf\\_response.pdf](http://www.epa.gov/efinpage/efab/epa_comb_ops_srf_response.pdf)>

**EFAB Follow-up:** <[www.epa.gov/efinpage/combinedops.pdf](http://www.epa.gov/efinpage/combinedops.pdf)>



## *Innovations in Watershed Financing: The Bay Restoration Fund Act (December 2005)*

In its letter to EPA, the board is referring to the Bay Restoration Fund Act as an example of the type of innovation that is needed at the state level to address the growing challenge of financing water pollution control in a watershed context. The board believes this Act is innovative for three reasons. First, it envisions future income to the “restoration fund” secured by the majority of Bay Restoration fees. Second, it imposes a statewide fee on septic tanks at personal residences. Third, it dedicates the income from the septic tank fees to support specific non-point source pollution programs within the state.

**Project Chair:** Michael Curley

**EPA Strategic Goal:** Clean and Safe Water; Land Preservation and Restoration

**Primary Customer:** Office of Water; OSWER

**EFAB Report:** <[www.epa.gov/efinpage/Bay\\_Restoration\\_Fund\\_report.pdf](http://www.epa.gov/efinpage/Bay_Restoration_Fund_report.pdf)>

## *Financial Assurance in RCRA Programs (January 2006)*

Despite legislation, regulations, and policies, industrial and solid waste facilities continue to be abandoned with little or no resources available to deal with contamination. EPA has sought advice from EFAB on uses of financial assurance mechanisms to help address this problem. Financial assurance mechanisms such as insurance, financial tests, corporate guarantees, bonds, and trust funds seek to ensure that resources will be available to address the environmental consequences of industrial and business activities. The board hosted an information-gathering workshop with industry and state experts to explore these topics and determined topics for further investigation. As a first product, the board issued a report to EPA on the strengths and weaknesses of the current financial test used by corporations to demonstrate that they have the capacity to meet their financial assurance obligations.

**Project Co-Chairs:** Mary Francoeur and A. James Barnes

**EPA Strategic Goals:** Land Preservation and Restoration; Compliance and Environmental Stewardship

**Primary Customer:** Office of Solid Waste and Emergency Response

**EFAB Report:** <[www.epa.gov/efinpage/fintestlet06.pdf](http://www.epa.gov/efinpage/fintestlet06.pdf)>

**Agency Response:** <[www.epa.gov/efinpage/BodineResponse06.pdf](http://www.epa.gov/efinpage/BodineResponse06.pdf)>

## *Affordability of U.S. Water and Sewer Rates (February 2006)*

EFAB explored ways to help governments, the private sector, and the general public address the costs of water and sewer services. The board examined issues such as bottom line costs, uneven costs and cost distributions, affordability criteria, the problems of low-income households, utility losses, and consumer concerns. EFAB hosted a workshop in August 2005, where it heard knowledgeable speakers from the utility industry, consumers, and local governments speak on these issues. Based on the workshop and later discussions, the board developed a report suggesting an approach for dealing with household affordability problems and utility viability issues through the careful design of utility policies involving subsidies, collections, and financial assistance.

**Project Co-Chairs:** Andrew Sawyers, John McCarthy (former member), and John Boland

**EPA Strategic Goals:** Clean and Safe Water; Compliance and Environmental Stewardship

**Primary Customer:** Office of Water

**EFAB Report:** <[www.epa.gov/efinpage/Affordability\\_Rate\\_Design\\_report.pdf](http://www.epa.gov/efinpage/Affordability_Rate_Design_report.pdf)>

## *Establishing a New SRF Loan Guaranty Program (June 2006)*

EFAB continues to devote significant attention to financing issues associated with the Clean Water and Drinking Water State Revolving Fund Programs. In this latest project, the board has been asked by EPA to examine ways in which loan guaranties might be



used by the Agency to more efficiently meet the funding demands for water infrastructure projects. Specifically, the board will be studying ways in which loan guarantees might be used as one of the tools in a tailored environmental project funding mix which might also include clean water and/or drinking water state revolving loans, U.S. Department of Agriculture Rural Utility Service grants and loans, Department of Housing and Urban Development Community Development Block Grants, and/or other federal and state funding sources.

**Project Chair:** George Butcher

**EPA Strategic Goal:** Clean and Safe Water

**Primary Customer:** Office of Water

**EFAB Report:** <[www.epa.gov/efinpage/loan\\_g.pdf](http://www.epa.gov/efinpage/loan_g.pdf)>

## *Application of Useful Life Financing to State Revolving Funds (June 2006)*

In this report, EFAB supports making extended term financing of environmental facilities available through state revolving funds (SRFs). To the extent that a financing period beyond 20 years is currently authorized by statute, the board recommends that EPA approve requests by state SRFs for approval of useful financing up to 40 years.

**Project Chair:** George Butcher

**EPA Strategic Goal:** Clean and Safe Water

**Primary Customer:** Office of Water

**EFAB Report:** <[www.epa.gov/efinpage/useful.pdf](http://www.epa.gov/efinpage/useful.pdf)>



## ONGOING PROJECTS/REPORTS 2006-2007

### *Financial Market Incentives and Environmental Management Systems*

EPA has recently requested EFAB's advice on identifying additional organizations in the financial and business communities having a demonstrated or potential interest in environmental management systems, environmental performance improvement, and financial risks/rewards. The Agency has also asked the board to help provide a better understanding of current financial services industry beliefs, practices, conventions, and challenges regarding the consideration of environmental performance and systems. EFAB has begun a dialogue with the Agency and plans to meet in the coming month to determine the project's next steps.

**Project Chair:** Rachel Deming

**EPA Strategic Goal:** Compliance and Environmental Stewardship

**Primary Customer:** Office of Policy, Economics and Innovation

### *Sustainable Watershed Financing*

The board held a roundtable meeting in March 2006 to bring together experts from around the country to explore innovative ways to use sustainable and innovative financing tools to accelerate the implementation of projects in a watershed plan. Follow-up actions from the roundtable will contribute to increased understanding of both innovative financial tools available to watershed communities and the governance processes necessary to get them accepted through political institutions. The board is currently drafting a report from the information gathered.

**Project Chair:** Langdon Marsh

**EPA Strategic Goals:** Clean and Safe Water; Healthy Communities and Ecosystems

**Primary Customer:** Office of Water

### *SmartWay Transportation Upgrade Kit*

The SmartWay Transport Partnership is actively investigating ways to make investment in the SmartWay Transportation Upgrade Kit more attractive to trucking companies. EPA's Office of Air and Radiation has requested EFAB's assistance to study way in which innovative financing and other related arrangements can be structured so as to increase the adoption of the various technologies in the SmartWay Transportation Upgrade Kit.

**Project Chair:** Langdon Marsh

**EPA Strategic Goals:** Clean Air and Global Climate Change

**Primary Customer:** Office of Air and Radiation  
Sustainable Water Infrastructure

### *Sustainable Water Infrastructure*

EFAB is working with the Office of Water, pursuant to a charge from EPA Administrator Johnson, to explore ways to further leverage public and private investments in wastewater and drinking water infrastructure. This area will be a major focus for the board in the coming year and will involve collaboration with the National Advisory Committee on Environmental Policy and Technology.

**Project Chair:** To Be Determined

**EPA Strategic Goals:** Clean and Safe Water

**Primary Customer:** Office of Water